

Part 2

Section A

Questions 1- 20

The following statements are either true or false. Select the most appropriate answer and darken the box under A for true or under B for false.

1. The annual accounting period used for keeping records and reporting your income and expenses is your "Tax Year."
2. When a taxpayer operates two or more separate and distinct businesses, with separate and distinct books and records, the same accounting method must be used for both businesses.
3. The basis of an intangible asset is usually the cost to buy or create it, including the value of the author or inventor's time spent to create the asset.
4. In June 1999, you paid Maurice Brown, an employee, one week's vacation pay, but Maurice did not take a vacation at the time. You may deduct this wage as an expense on your 1999 return.
5. If buildings are added to leased property, the cost of the improvement must be amortized over the remaining term of the lease.
6. To figure the MACRS depreciation deduction, the basis of the property must first be determined.
7. A cash method taxpayer may use the non-accrual experience method of accounting for bad debts if he or she qualifies under the applicable rules.
8. You can show that your attendance at a convention benefits your trade or business by comparing the convention agenda with the official duties and responsibilities of your position.
9. Certain partnerships that do **not** actively conduct a business can elect to be completely or partially excluded from being treated as a partnership for federal tax purposes if 80% of the partners agree to the election.
10. A partnership is not considered to engage in a trade or business, and is not required to file a Form 1065, for any tax year in which it neither receives income nor pays or incurs any expenses treated as deductions or credits for federal income tax purposes.
11. A partner's distributive share of partnership loss is allowed for the current year only to the extent of the adjusted basis of the partner's partnership interest as calculated at the end of the partnership's tax year in which the loss occurred.
12. A partner who sells or exchanges only part of an interest in a partnership, or whose interest is reduced, reports his or her distributive share of the partnership items by taking into account his or her varying interests during the partnership year.

13. Jeff is a partner in Jones & Jones Accounting. The other two partners are his brother and his 16 year-old son, Cooper, who provides no services. The partnership income consists mostly of compensation for services performed by Jeff and his brother. Cooper acquired his interest by gift from his grandfather. Cooper is recognized as a partner in the firm for tax purposes.

14. If property contributed to a partnership by a partner or distributed by the partnership to a partner is subject to a liability, the transferee is treated as having assumed the liability to the extent it does not exceed the fair market value of the property.

15. A marketable security purchased by the partnership and distributed to a partner is **not** treated as money in determining whether the partner recognizes gain on the distribution.

16. If a partnership is notified of an exchange of partnership interests involving unrealized receivables or inventory items, the partnership must file Form 8308, Report of a Sale or Exchange of Certain Partnership Interests, only if the notification occurs after the Form 1065 for the year of the exchange has been filed.

17. The research credit is generally 50% of the amount by which the research expenses for the year are more than the base amount.

18. A 10% tax credit, up to \$4,000, may be claimed for a qualified electric vehicle placed in service during the year even if the vehicle is not used in a business.

19. If you make your business more accessible to and usable by persons with a disability or by elderly persons, you may be able to deduct the entire cost in the year the expense is incurred.

20. The Heavy Vehicle Highway Motor Use Tax Gross Weight Computation includes the weight of the maximum load the vehicle will customarily carry.

Turn to the next page for Part 2, Section B.

Part 2

Section B

Questions 21- 45

The following are multiple choice. Select the most appropriate answer and darken the box under the corresponding letter on the answer sheet.

21. Generally you must capitalize rental expenses if any of the following apply **except**:
- A. Produce real or tangible personal property for sale to customers.
 - B. Produce real or tangible personal property for use in a trade or business or activity engaged in for profit.
 - C. Acquire property for resale if the average annual gross receipts are greater than \$10,000,000.
 - D. Rent increases during the lease.
22. Which of the following would be considered a fiscal tax year?
- A. 02/15/98 – 03/15/99
 - B. 08/01/98 – 07/31/99
 - C. 04/01/98 – 04/30/99
 - D. 01/01/99 – 12/31/99
23. Which of the following individuals is **not** considered a related party for deducting expenses on the accrual method?
- A. Half-sister
 - B. Brother
 - C. Mother
 - D. Step-sister
24. When a group of assets that is a trade or business is purchased for a lump sum, the price assigned to each asset may be determined by using any of the following rules **except**:
- A. Make the allocation among the assets in proportion to (but not in excess of) their fair market value on the purchase date.
 - B. The seller and the buyer may make a written agreement to allocate the consideration or the fair market value of any asset. The agreement is binding on both parties unless the IRS determines that the amounts are not appropriate.
 - C. The seller and the buyer may make a specific allocation to each asset if it is based on the value of each asset and the seller and the buyer have adverse interests.
 - D. Make the allocation among the assets in the following order: 1) cash, demand deposits, etc; 2) certificates of deposit, U. S. Government securities, readily marketable stock or securities, and foreign currency; 3) Section 197 intangibles (other than goodwill and going concern value); and 4) any excess is allocated to tangible assets based on fair market value.
25. All of the following items will increase the basis in an asset **except**:

- A. Section 179 deduction.
 - B. Capital improvements.
 - C. Installation costs.
 - D. Zoning cost.
26. The uniform capitalization rules will apply in all of the following situations **except**:
- A. Produce real or tangible personal property for sale to customers.
 - B. Acquire property for resale, and average annual gross receipts exceed \$10,000,000.
 - C. Produce real or tangible personal property for use in a business or activity carried on for profit.
 - D. Produce property under a long-term contract other than a home construction.
27. Generally, an employer can deduct the cost of which of the following fringe benefits provided to an employee:
- A. Use of car.
 - B. Airline tickets.
 - C. Tickets to sporting events.
 - D. All of the above.
28. Kim Smith a calendar year taxpayer, bought and placed in service in 1997 an item of 3-year property at a cost of \$5,000. She elected the Section 179 deduction of \$5,000 for the property. She used the property 100% for business in 1997 and 1998. In 1999 she used it for personal purposes only. She must determine if she needs to recapture any of the Section 179 deduction, because of the change from business to personal. If allowable depreciation for 1997 and 1998 would have been \$3,889 (if Section 179 had not been elected) how much Section 179 recapture must she claim?
- A. 0
 - B. \$1,111
 - C. \$5,000
 - D. \$3,889
29. Listed property is any of the following **except**?
- A. Passenger autos.
 - B. Transportation property.
 - C. Computer equipment (not used 100% for business).
 - D. Goodwill.
30. To meet the directly related test for entertainment expenses you must show which of the following:
- A. The main purpose of the combined business and entertainment was the active conduct of business.
 - B. You did engage in business with the person during the entertainment period.
 - C. You had more than a general expectation of receiving income or some other specific business benefit at some future time.
 - D. All of the above
31. You usually live and work in St. Louis, but you are assigned to a job in Little Rock for an indefinite period of time. How much, if any, of the following monthly expense can you deduct?

- Rent \$1,000
- Meals \$230
- Travel \$35 to go home on weekends

- A: \$1,265
- B: \$1,035
- C: \$1,150
- D: 0

32. For purposes of estimated tax exceptions for farmers, all of the following are considered gross income from farming **except**:

- A. Gains from the sale of investment stock (securities).
- B. Gross farm rental income.
- C. Gains from the sale of livestock used for breeding, draft, sport, or dairy purposes.
- D. Gross farm income from partnerships, S corporations, estates and trusts.

33. Who of the following may use farm income averaging, assuming farm income rules are met?

- A. A natural person filing a Form 1040, a partner in a partnership, and a shareholder in an S Corporation.
- B. A natural person filing a Form 1040, a partnership, an S Corporation and a C Corporation.
- C. A natural person filing a Form 1040, a partner in a partnership, and a shareholder in a C Corporation.
- D. A natural person filing a Form 1040, a partner in a partnership, an estate, and a trust.

34. The XYZ Partnership is comprised of three partners. Sam and Earl each own 30% of the capital and profits, and Tim owns 40% of capital and profits. Sam and Earl each use a tax year ending on June 30. Tim's tax year ends September 30. What is the partnership's "required tax year" end?

- A. December 31.
- B. June 30.
- C. September 30.
- D. None of the above.

35. If any partner's interest in a partnership changes during the year, which of the following cash basis items of the partnership must be prorated on a daily basis to determine each partner's share of partnership income or loss?

- A. Interest.
- B. Taxes.
- C. Payments for services or for the use of property.
- D. All of the above.

36. Members of a family who must meet special requirements to be recognized as partners for determining a partner's distributive share include all of the following **except**:

- A.** Spouses.
- B.** Ancestors.
- C.** Lineal descendants.
- D.** Brothers and sisters.

37. Regarding family partnerships, if a husband and wife carry on a business together and share in the profits and losses:

- A.** They must have a formal partnership agreement to be considered a partnership.
- B.** They can report the income or loss on a Schedule C (Form 1040) if they are filing a joint return.
- C.** They should each carry his or her share of the partnership income or loss from the Form 1065 Schedule K-1 to their joint or separate individual income tax returns.
- D.** Combine the self-employment income on a single Schedule SE (Form 1040).

38. In computing the ordinary income of a partnership, a deduction is allowed for:

- A.** A net operating loss.
- B.** Guaranteed payments to partners.
- C.** Short term capital losses.
- D.** Contributions to qualified charities.

39. A partner who acquired a part of his partnership in a sale may be able to choose a special basis adjustment for the property. Which of the following is correct?

- A.** The distribution must be made within 1 year after the partner acquired the partnership interest.
- B.** The partner's basis for the property distributed is the same as it would have been if the partnership had chosen the optional adjustment to basis.
- C.** The partnership may also choose the optional adjustment to basis when the partner acquired the partnership interest.
- D.** All of the above.

40. Generally, a partner does not recognize loss on a partnership distribution unless all of the following requirements are met **except**:

- A.** The adjusted basis of the partner's interest in the partnership exceeds the distribution.
- B.** The adjusted basis of the partner's interest in the partnership exceeds the fair market value of the property distributed.
- C.** The partner's entire interest in the partnership is liquidated.
- D.** The entire distribution is in money, unrealized receivables, or inventory items.

41. Which of the following statements about the liquidation of a partner's interest is incorrect?
- A. A retiring partner is treated as a partner until his/her interest in the partnership has been completely liquidated.
 - B. The retiring partner will recognize a gain on a liquidating distribution to the extent that any money distributed is more than the partner's adjusted basis in the partnership.
 - C. Payments in liquidation of a partnership interest that are not made in exchange for the interest in partnership property are reported as capital gain by the recipient.
 - D. Former partners who continue to make guaranteed periodic payments to satisfy the partnership's liability to a retired partner after the partnership is terminated can deduct the payments as business expense in the year paid.
42. In a sale or exchange of a partner's interest in a partnership, which of the following partnership assets is treated as unrealized receivables?
- A. Franchises.
 - B. Trademarks.
 - C. Mining property for which exploration expenses were deducted.
 - D. All of the above.
43. All of the following credits are part of the General Business Credit **except**:
- A. Alcohol fuels credit
 - B. Credit for employer paid FICA on employee tips used to meet the federal minimum wage rate
 - C. Investment credit
 - D. Welfare-to-work credit
44. Which of the following will disqualify a vehicle for the Electric Vehicle Credit?
- A. A vehicle manufactured for use on public roads.
 - B. A vehicle powered primarily by an electric motor drawing current from a rechargeable battery.
 - C. The vehicle was purchased for resale.
 - D. You were the first person to use it.
45. Which of the following vehicles is eligible for suspension of the heavy highway motor vehicle use tax?
- A. Heavy highway motor vehicles with a gross weight of 55,000 pounds or more.
 - B. A commercial bus.
 - C. An agriculture vehicle used 7,500 or fewer miles.
 - D. Trucks and tractors.

Part 2

Section C

Questions 46 - 80

The following questions may require some computation. Select the most appropriate answer and darken completely the box under the corresponding letter on the answer sheet.

46. In June 1995 you paid \$82,600 for real property to be used as a manufacturing plant. You allocated the cost to land \$10,325 and building \$72,275. From 1995 to 1998 you incurred the following expenses related to this property:

Building remodeling before placed in service	\$20,000
Depreciation expense	\$14,526
Casualty loss not covered by insurance	\$ 5,000
Fire damage restoration	\$ 5,500

What is the adjusted basis of the building and land as of January 1, 1999?

- A. Building \$77,749, Land \$10,825
- B. Building \$88,249, Land \$10,825
- C. Building \$78,249, Land \$10,325
- D. Building \$92,275, Land \$20,825

47. Gail Gray operates a small basket weaving business as a sole proprietor. She incurred the following expenses in 1999:

Beginning Inventory Raw Material	\$ 5,000
Beginning Inventory Finished Goods	\$10,000
Ending Inventory Raw Material	\$ 6,250
Ending Inventory Finished Goods	\$ 4,700
Purchases	\$17,500
Fabric used in finished goods	\$ 2,350
Building Rent	\$12,000
Freight in on fabric	\$ 300
Freight out on Sale of Finished Goods	\$ 475

What was her cost of goods sold?

- A. \$24,375
- B. \$24,675
- C. \$21,850
- D. \$24,200

48. Laura Wilson leased a building for 5 years beginning July 1, 1998 and ending June 30, 2003, for \$1,250 per month. On July 1, 1998 Mrs. Wilson paid \$22,500 in rent to her landlord. How much can she deduct in each year?

- A.** 1998, \$11,500; 1999, \$11,250.
- B.** 1998, \$ 7,500; 1999, \$15,000.
- C.** 1998, \$15,000; 1999, \$ 7,500.
- D.** 1998, \$22,500; 1999 \$ -0-.

49. In 1999 Mary Jane placed in service a machine that cost \$207,000. If she placed no other Section 179 property in service during the year, how much is her Section 179 maximum dollar limit?

- A.** \$18,500.
- B.** \$19,000.
- C.** \$ -0-.
- D.** \$12,000.

50. In 1999 your construction company bought and placed in service a dump truck that cost \$55,000 and a chain saw that cost \$2,000. Section 179 expensing was elected and applied \$2,000 to the chain saw and \$17,000 to the dump truck for a total of \$19,000. What is the depreciable basis in each item for 1999?

<u>Saw</u>	<u>Truck</u>
A. \$2,000	\$38,000
B. \$2,000	\$55,000
C. \$ -0-	\$38,000
D. None of the above	

51. On March 1, 1999 you purchased a business with the following asset values for \$250,000:

- Equipment \$175,000
- Goodwill \$ 60,000
- Cash \$ 15,000

What is the amortization deduction only for 1999?

- A.** \$333
- B.** -0-
- C.** \$28,320
- D.** \$3,330

52. On January 1, 1999, Sally Jefferson purchased an auto for \$18,000. Her business use was 60% during 1999. She is electing \$1,000 section 179 deduction on the auto. What is her total deduction for calendar tax year 1999?

- A.** \$3,600
- B.** \$3,060
- C.** \$3,160
- D.** \$1,836

53. In 1999, Kathy Hood, a sole proprietor of Hood's Basket Shop, had gross income of \$245,000, a bad debt deduction of \$5,000 and other expense of \$75,940. The business reported on the accrual method of accounting and used the specific charge off method for bad debts. In 2000 she recovered \$4,500 of the \$5,000 deducted in 1999. How much will she claim as income and in which year?

- A.** \$4,500, amended 1999.
- B.** \$5,000, 2000.
- C.** \$4,500, 2000.
- D.** None of the above.

54. As a sole proprietor of a dress shop in Los Angeles, you take a business trip to Reno. On your way to Reno you stop in Las Vegas to visit a friend. You spend three days in Las Vegas and six days in Reno. Your travel expenses for the nine days are \$630. If you had not stopped in Las Vegas, the cost of your six-day trip to Reno would have been \$420. How much may be deducted before considering any meals limitation?

- A.** \$420
- B.** \$630
- C.** \$580
- D.** None of the above

55. William Roberts sells products to unrelated XYZ Corporation. He gave XYZ Corporation 5 cheese packages to thank them for their business. Mr. Roberts paid \$100 dollars for each package for a total of \$500. Five of the XYZ Corporation executives took the packages home. How much can William deduct for the gifts?

- A.** \$125
- B.** \$500
- C.** \$-0-
- D.** \$250

56. In 1999, Lakewood, a cash-basis partnership, incurred \$8,000 of organizational expenses that were not paid until 2000. The partnership began business on 7/1/99 and elected to amortize organizational expenses over a 60-month period on its 1999 tax return. How much of the \$8000 organizational expense can the partnership deduct in 2000?

- A.** \$1,600
- B.** \$2,000
- C.** \$2,400
- D.** \$3,200

57. Under the terms of ABC's partnership agreement, Eric received, as a guaranteed payment, 12 monthly payments of \$1,000 from 2/1/98 to 1/31/99 from ABC partnership. His distributive share of the partnership income is 10%. The ABC partnership has \$60,000 of ordinary income after deducting the guaranteed payment. How much must Eric include on his individual tax return for 1999 if Eric is a calendar year taxpayer and the partnership year ends 1/31/99?

- A.** \$ 1,000 guaranteed payment & \$6,000 ordinary income.
- B.** \$ 1,000 guaranteed payment & \$ 500 ordinary income.
- C.** \$12,000 guaranteed payment & \$ 500 ordinary income.
- D.** \$12,000 guaranteed payment & \$6,000 ordinary income.

58. For the year ended December 31, 1999, the DEF partnership had the following items of expense or loss:

Salaries paid (other than partners)	\$45,000
Charitable contributions	\$ 3,000
Foreign income taxes	\$ 2,500
Real estate taxes for partnership office building	\$ 7,250
Loss on the sale of machinery held 5 years	\$ <u>8,900</u>
Total	\$66,650

How much of the \$66,650 total is **not** deductible in figuring the partnership's ordinary income or loss?

- A. \$11,900
- B. \$14,400
- C. \$21,650
- D. \$66,650

59. Partners Ray, Fay, & Kay of RFK, a calendar year partnership, share profits and losses in a ratio of 4:3:3, respectively. All three materially participate in the partnership business. Each partner's adjusted basis in the partnership as of December 31, 1999 and before any of the year-end income/loss distribution was as follows:

Ray	\$10,000
Fay	\$ 8,000
Kay	\$12,000

The partnership incurred an operating loss of \$30,000 in 1999. What are Ray, Fay and Kay's share of the loss to be reported on their 1999 individual income tax returns?

	Ray	Fay	Kay
A.	\$ 6,000	\$ 4,800	\$ 3,600
B.	\$10,000	\$ 8,000	\$ 9,000
C.	\$10,000	\$ 8,000	\$12,000
D.	\$12,000	\$ 9,000	\$ 9,000

60. In 1999, B invested \$20,000 cash for a 55% interest in ABC Partnership.

B materially participates in the partnership's business and the partnership agreement states he is liable for all of the partnership's debts. The only partnership debt at the year end was a \$17,000 loan from Cook bank. Partner B and the other general partner had a separate agreement that B's liability would not exceed \$12,000. The partnership reported a \$60,000 ordinary loss for 1999. Assuming there were no other adjustments to B's basis, what is the amount of B's deductible loss for 1999?

- A. \$ 37,000
- B. \$ 33,000
- C. \$ 32,000
- D. \$ 20,000

61. In 1999, Paul & Linda form a partnership with cash contributions of \$40,000 each. Paul is not a general partner. Under the partnership agreement, Paul & Linda share all partnership profits and losses equally. The partnership borrows \$100,000 from a local bank to purchase depreciable equipment to be used in the partnership's business. Linda is required under the partnership agreement to pay the creditor if the partnership defaults. For 1999 the partnership had a \$150,000 loss. Based upon the facts, what are Paul & Linda's allowable losses?

	<u>Paul</u>	<u>Linda</u>
A.	(\$40,000)	(\$40,000)
B.	(\$40,000)	(\$75,000)
C.	(\$75,000)	(\$75,000)
D.	\$ -0-	(\$40,000)

62. Taxpayer A contributed stock with a FMV of \$10,000 and a basis of \$ 5,000 to ABC Partnership (which would be treated as an investment company if it had been incorporated) for a 50% interest. What is the partnership's basis in the stock?

- A.** \$ -0-
- B.** \$ 2,500
- C.** \$ 5,000
- D.** \$10,000

63. In which one of the following ownership combinations of Pete and Louie partnership would Pete be treated as owning more than 50% of the partnership?

- A.** Pete 30 percent
Pete's Wife 10 percent
Pete's Aunt 60 percent
- B.** Pete 45 percent
Pete's Uncle's Trust 55 percent
- C.** Pete 10 percent
Pete's Wife's Corporation 90 percent
- D.** Pete 30 percent
Pete's Father 10 percent
Pete's Nephew 60 percent

64. Jack sold his son a 25% share in JR and Associates. Under the term of the partnership agreement Jack receives 25% of all partnership income or loss plus a guarantee payment of \$60,000 per year for services he performed. His son did not perform any services. Capital is a material income-producing factor. In 1999 the partnership had a \$50,000 profit before deducting Jack's guaranteed payment. What is the amount of income or loss Jack would report on his 1999 tax return, assuming he materially participates in the partnership activities?

- A.** \$15,000 guaranteed payment, \$2,500 Loss.
- B.** \$12,500 guaranteed payment, \$2,500 Loss.
- C.** \$60,000 guaranteed payment, \$2,500 Loss.
- D.** \$60,000 guaranteed payment.

65. Wolf owns a 55% interest in Red partnership and a 75% interest in Hood Partnership. In February 1998, Red sold land to Hood for \$70,000. The land had a basis to Red of \$85,000. In July 1999, Hood sold the land to Ride, an unrelated individual, for \$76,000. How much gain or (loss) must Hood Partnership recognize in 1999?

- A. \$ -0-
- B. \$ 6,000
- C. (\$ 9,000)
- D. (\$15,000)

66. Bergen Partnership is a 70% owner of Mitchell Partnership. On August 1, 1998, Mitchell sold land to Bergen for \$40,000, which had an adjusted basis to Mitchell of \$50,000. On September 1, 1999, Bergen sold the land to an unrelated party for \$70,000. What is the amount of Bergen's gain?

- A. \$ -0-
- B. \$10,000
- C. \$20,000
- D. \$30,000

67. Under a partnership agreement, Sybil is to receive 40% of the partnership's income, but not less than \$15,000. The partnership's net income for 1999 was \$30,000 before considering the minimum guarantee amount. What amount can the partnership deduct as a guaranteed payment, and what amount of income is Sybil required to report on her individual tax return?

<u>Partnership</u>	<u>Sybil</u>
A. \$ 3,000	\$15,000
B. \$15,000	\$15,000
C. \$ 3,000	\$27,000
D. \$15,000	\$27,000

68. During 1999, Scott contributed property having an adjusted basis to him of \$10,000, to LMN Partnership for a 45% interest in the partnership. At the time of the contribution, the property had a fair market value of \$20,000. What is the amount and character of Scott's gain on this transaction to be reported on his 1999 tax return?

- A. \$ -0-
- B. \$ 4,500 long term capital gain
- C. \$10,000 ordinary income
- D. \$10,000 long term capital gain

69. The adjusted basis of Dan's interest in D & P Enterprise at the end of 1999, after allocation of his share of partnership income, was \$35,000. This included his \$19,000 share of partnership liabilities. The partnership had no unrealized receivables or substantially appreciated inventory items. On December 31, 1999, Dan sold his interest in D & P Enterprise to Joanne for \$16,000. It was agreed that she would assume Dan's share of partnership liabilities. What is the amount of Dan's capital gain or (loss)?

- A.** \$ 1,000
- B.** \$16,000
- C.** \$ -0-
- D.** (\$19,000)

70. Western Enterprises, a general partnership, distributed \$8,000 cash to Peter during the year. His adjusted basis (including his share of liabilities) in his partnership interest at the beginning of the year was \$9,500. Peter's share of the partnership's taxable loss for the year was \$1,000. What was Peter's ending basis in partnership interest?

- A.** \$ 500
- B.** \$1,000
- C.** \$1,500
- D.** \$ -0-

71. Under a partnership agreement, Gil is to receive 40% of the partnership income, but not less than \$20,000. The partnership has net income of \$100,000 for 1999 without regard to the minimum guarantee and before any allocation. What is the amount and character of the income Gil is to receive for 1999?

- A.** \$40,000 distributive share.
- B.** \$20,000 guaranteed payment; \$32,000 distributive share.
- C.** \$20,000 guaranteed payment; \$20,000 distributive share.
- D.** \$20,000 guaranteed payment; \$40,000 distributive share.

72. The adjusted basis of Paul's partnership interest is \$10,000. He receives a distribution of \$4,000 cash and property that has an adjusted basis to the partnership of \$8,000. (This was not a distribution in liquidation.)

What is the basis of the distributed property in Paul's hands?

- A.** \$ 8,000
- B.** \$ 6,000
- C.** \$14,000
- D.** \$ 2,000

73. A is a partner in partnership PRS and has an adjusted basis in its partnership interest of \$6,500. In a complete liquidation of A's interest, A received the following:

	<u>PRS's Basis</u>	<u>Fair Market Value</u>
Cash	\$ -0-	\$ -0-
Inventory items	\$1,000	\$2,000
Asset X	\$ 500	\$4,000
Asset Y	\$1,000	\$1,000

What is A's basis in Assets X & Y?

<u>Asset X</u>	<u>Asset Y</u>
A. \$ 500	\$1,000
B. \$1,500	\$3,000
C. \$3,500	\$1,000
D. \$4,400	\$1,100

74. Jayne's basis in her partnership interest is \$55,000. In 1999, in a distribution in liquidation of her entire interest, she receives a rental house and vacant lot, neither of which is inventory or unrealized receivables. The rental house has an adjusted basis to the partnership of \$5,000 and a fair market value of \$40,000. The vacant lot has an adjusted basis to the partnership of \$10,000 and a fair market value of \$10,000. What is Jayne's basis in each property after the distribution?

- A.** Rental house, \$40,000; vacant lot, \$15,000.
- B.** Rental house, \$44,000; vacant lot, \$11,000.
- C.** Rental house, \$25,000; vacant lot, \$30,000.
- D.** Rental house, \$45,000; vacant lot, \$10,000.

75. Joseph is a partner in JKL Partnership. The adjusted basis of his partnership interest is \$38,000, which includes his \$30,000 share of partnership liabilities. The partnership has no unrealized receivables or inventory items. Joseph sells his interest in the partnership for \$15,000 in cash. He had been paid his share of the partnership income for the tax year. What is Joseph's gain or loss on the sale?

- A.** \$ 7,000
- B.** \$15,000
- C.** (\$15,000)
- D.** (\$23,000)

76. Fred is a partner in DEF Partnership. The adjusted basis of his partnership interest is \$38,000, which includes his \$30,000 share of partnership liabilities. Fred's share of unrealized receivables in the partnership is \$12,000. Fred sold his share of the partnership interest for \$45,000 cash. What is the amount and character of Fred's gain?

- A. \$12,000 ordinary gain; \$25,000 capital gain.
- B. \$25,000 ordinary gain; \$12,000 capital gain.
- C. \$ 7,000 capital gain.
- D. \$37,000 capital gain.

77. Susan has a 25% interest in the Boggs Partnership. The adjusted basis of her interest at the end of the current year is \$40,000. She sells her interest in Boggs Partnership to Brian for \$53,000 cash. The basis and fair market value of the partnership's assets (there are no liabilities) are listed below. There was no agreement between Susan and Brian for any allocation of the sales price.

<u>Assets</u>	<u>Basis</u>	<u>Fair Market Value</u>
Cash	\$ 60,000	\$ 60,000
Unrealized receivables	\$ -0-	\$ 32,000
Inventory	\$ 40,000	\$ 80,000
Fixed assets	<u>\$ 60,000</u>	<u>\$ 40,000</u>
Total assets	\$160,000	\$212,000

What is the amount and character of Susan's gain or loss?

- A. \$18,000 ordinary income, \$ -0- capital gain.
- B. \$ -0- ordinary income, \$13,000 capital gain.
- C. \$18,000 ordinary income, \$ 5,000 capital loss.
- D. \$ 6,500 ordinary income, \$ 6,500 capital gain.

78. Under a partnership agreement, Sherry is to receive 25% of the partnership income, but not less than \$10,000. The partnership has net income of \$30,000 for 1999 before any allocation. Calculate Sherry's guaranteed payment from the partnership for 1999.

- A. \$10,000
- B. \$ -0-
- C. \$2,500
- D. \$7,500

79. A taxpayer purchased two electric vehicles for personal use in 1999. He paid \$45,000 for each vehicle. What is his qualified Electric Vehicle Credit for 1999 before the tax liability limit?

- A. \$ -0-
- B. \$4,000
- C. \$8,000
- D. \$9,000

80. Feel Good Partnership operates a business. Its tax year ends on December 31. Partner X dies on April 15. Partner X's and his estate's distributive share of partnership income, which is considered to be earnings from self-employment, for the year of death, is \$12,000. What amount of income must be used to figure Partner X's self-employment tax for his final Form 1040?

- A.** \$ -0-
- B.** \$ 3,000
- C.** \$4,000
- D.** \$12,000